

# Report on item 10 of the agenda of the General Meeting

**Report by the Management Board of AT & S Austria Technologie & Systemtechnik Aktiengesellschaft with regard to the authorization of the Management Board to issue convertible bonds with exclusion of shareholders' subscription right (section 174 para 4 in conjunction with section 153 para 4 Stock Corporation Act)**

## 1. Authorization

The Management and Supervisory Boards of AT & S Austria Technologie Systemtechnik Aktiengesellschaft envisage to propose a resolution to the General Meeting, by which the Management Board shall be authorized to issue until July 2, 2019 and with the consent of the Supervisory Board once or repeatedly convertible bonds in bearer form in a total nominal amount of up to EUR 150.000.000 and to grant the holders of the convertible bonds rights of subscription and/or conversion rights of up to 19,425,000 no-par value bearer shares in the Company in accordance with the terms and conditions for the convertible bonds to be defined by the Management Board. The fulfilment of the conversion and/or subscription rights can be effected through conditional capital, authorised capital, out of treasury shares or by way of delivery from third parties or a combination thereof.

The Management Board shall be authorized to determine with the consent of the Supervisory Board and under consideration of the regulations under stock corporation law the emission and configuration features as well as the bond terms for the convertible bonds (including without limitation the interest rate, issue price, maturity and denomination, dilution protection provisions, conversion period, conversion rights and obligations, conversion ratio and conversion price).

The price of the convertible bonds shall be determined under consideration of calculation methods customary in the market.

The issuing price of the shares issued upon conversion (exercise of the conversion and/or subscription right) and the conversion and/or subscription ratio shall be determined with regard to market standard calculation and the stock market price of the shares of the company (basis of the calculation of the issuing price); the issuing price must not be below the pro-rata amount of the share capital.

The statutory subscription right may also be granted in such way that the convertible bonds are underwritten by a bank or a banking syndicate with the obligation to offer them to the shareholders for subscription (indirect subscription right). However, the Management Board shall be authorised to exclude the shareholders subscription rights to convertible bonds in whole or in part.

The convertible bonds can also be issued by a direct or indirect wholly-owned subsidiary of AT & S Austria Technologie & Systemtechnik Aktiengesellschaft; in this event, the Management Board shall be authorized, with the consent of the Supervisory Board, to assume a guarantee for the company for the convertible bonds and to grant the holders of the convertible bonds conversion rights to bearer shares of AT & S Austria Technologie & Systemtechnik Aktiengesellschaft.

With regard to the economic justification of such authorization as well as with regard to the authorization to exclude any pre-emptive rights of shareholders included in this proposal, the Management Board pursuant to section 174 (4) in conjunction with Sec 153 (4) Stock Corporation Act reports as follows:

## 2. Purpose of the convertible bond

The proposed authorisation to exclude the subscription right to convertible bonds is in the interest of the company and the shareholders. The advantages of such Bonds can generally be found in the following material aspects: (i) improved financing conditions for the Company, (ii) tapping of new investor groups, (iii) an issue price being attractive for the Company.

### (i) Improved financing conditions

The Company envisages issuing convertible bonds in order to be able to actively organize its capital structure and to optimize its cost of capital. For this purpose convertible bonds may be an appropriate tool in the future. By subscribing convertible bonds, investors additionally to the interest payments for their invested capital get entitled to purchase shares in the Company at a price already determined at the time of the issuance of the convertible bond in the future. In this way, investors also obtain the opportunity to participate in a possible increase of the value of the Company, with low default risk compared to direct equity investments. By the issuance of convertible bonds the Company can achieve a flexible and quick access to attractive financing conditions, which are partly below the levels of pure debt instruments. Convertible bonds also offer the opportunity to use any strong volatility in the Company's advantage and thereby lower the Company's capital costs.

However, attractive financing terms can only be achieved if the Company can respond in a quick and flexible way to favourable market conditions. Such advantage can often not be achieved by a rights issue with a minimum subscription period of at least two weeks. Experience shows that issues without subscription rights offerings usually can achieve better conditions, since by means of an immediate placement price-influencing risks at the expense of the Company due to changing market situations can be avoided and therefore investors being specialized on such forms of bonds can be approached. On the contrary, for issuances with subscription rights a minimum subscription period of two weeks has to be observed. Any subscription period could lead to the result, that because of the respective structuring or allotment mechanisms and/or market risks for investors during the subscription period, professional investors could not be approached at all or only by receiving a lower issuance amount. Usually, if subscription rights are excluded, more funds can be generated for the company from a lower number of shares to be issued. Therefore the exclusion of subscription rights is standard practice on the international capital markets for such bond issuances.

Finally, the economic relevance of subscription rights is immaterial if the Bonds are valued at market and placed at the best terms available in the markets, as it is intended by the Company in its own interest as well as in the interest of the shareholders. With respect to convertible bonds this can in particular be achieved through determination of the issue price of the shares to be issued upon exercise of conversion and/or subscription rights at a sufficient level above the current share price so that existing shareholders are protected from dilution to the extent possible.

Without the time consuming and costly implementation of the subscription rights, the financing and capital demands of the Company can be met out of short term market opportunities in a timely and cost effective manner and new investors can be accessed domestically and abroad. Hence, through the opportunity to exclude the shareholders' subscription rights, a stabilization of the equity capital and a reduction in financing costs both in the interest of the Company and of all shareholders achieved.

Because of the terms and conditions which are common for convertible bonds on the capital markets the conversion price of the shares to be issued at conversion (exertion of the conversion and/or subscription right) will be above the share price at the time of issuance of the convertible bonds, so that the com-

pany can achieve a higher issuing price in comparison to an immediate capital increase.

(ii) Tapping of new investor groups

Convertible bonds are predominantly subscribed by institutional investors which are specialized in that kind of investment and which shall be reached by the convertible bond to be issued. Institutional investors make specific demands on the denomination, configuration and temporal flexibility when the convertible bonds are issued. In general, it is appropriate and usual to meet these demands through an issuance under exclusion of subscription rights. Thus, the Company can tap an additional investor base. Any issue with subscription rights could lead to the result, that because of the respective structuring or allotment mechanisms and/or market risks for investors during the subscription period, professional investors could not be approached at all or only by receiving a lower issuance amount.

Therefore, the authorization of the Management Board to exclude shareholders' subscription rights is necessary due to strategic, financial and organizational reasons in order to (i) position the convertible bond appropriately in the capital markets, (ii) offer them to investors specialized in convertible bonds in the best way possible and (iii), therefore, to best utilize the benefits to the Company arising from the issuance of convertible bonds. The issuance of convertible bonds with subscription rights could substantially reduce the aforementioned benefits which result from the comparably favourable interest component as well as from the fast implementation possibility and the flexibility for the Company, because of the heavily increased processing efforts (in particular the time-intensive preparation, marketing- and commercial efforts) and the one-time, and recurring processing costs related thereto.

(iii) Issue price, issue terms of the convertible bonds and issue price of shares

The Management Board shall be authorised to determine with the consent of the Supervisory Board the emission and configuration features and the bond terms of the convertible bonds (in particular the interest rate, issue price, maturity and denomination, dilution protection provisions, conversion period, conversion rights and obligations, conversion ratio and conversion price).

The price of the convertible bonds shall be determined under consideration of calculation methods customary in the market.

The issuing price of the shares issued upon conversion (exercise of the conversion and/or subscription right) and the conversion and/or subscription ratio shall be determined with regard to market standard calculation and the stock market price of the shares of the company (basis of the calculation of the issuing price); the issuing price must not be below the pro-rata amount of the share capital.

Since, the share price is an important criterion for the determination of the terms and conditions of the convertible bonds, it is in the Company's interest to have a considerable influence on the date of issuance. Especially because of the volatility of the stock markets to be observed in general as well as the volatility of the shares in the Company it becomes apparent that both share price development as well as market assessment during a two weeks subscription period - which would need to be observed without an exclusion of subscription rights - could be subject to quite substantial changes. On the other hand, in the case of an issuance without subscription rights the Company is able to choose a favourable issuing date in a swift and flexible way. Thus in the course of an issuance with exclusion of subscription rights usually more capital can be raised for the Company in a shorter period of time at terms and conditions more favourable to the Company.

Through the authorisation to exclude the subscription rights the Company is able to determine favourable issuing terms in a favourable way within the term of the authorisation and thus can optimise the conversion as well as then financing terms in the interest of the Company and all shareholders. At the same time both the expected share price development as well as the general capital market condition can be accounted for. This way the development potential can be fully utilised to the benefit of the Company and the current shareholders.

Additionally, by the issuance of convertible bonds the capital structure of the Company can be optimized and the balance sheet structure of the Company can be improved. Depending on the structure chosen, a part of the external capital acquired through the convertible bond may be assessed like equity by external analysts. Such an assessment may allow an improved rating of the Company by investors and, therefore, can lead to lower financing costs for future debt capital of the Company. Furthermore, a convertible bond is often valued as a positive signal in the capital markets in relation to the confidence of the management with regard to the future development of the share price. Such confidence is reflected in the conversion price, which mostly can - due to the above mentioned reasons - be set forth at a higher level, if the subscription rights are excluded.

Furthermore, the preparation and structuring of transactions connected to the acquisition of participations, businesses or other assets require the best possible flexibility of the Management Board with regard to the utilization of the available financial instruments. Also in this respect, the Management Board needs to have the authorization to exclude the shareholders' subscription right. This shall not only be feasible in the case of contributions in kind, but also in the case of cash contributions if the Company has a special interest therein and the legal requirements are met, e.g. in the case of a cooperation with another company in the interest of the Company, if the partner makes its engagement subject to the acquisition of participations, in the case a strategic partner wants to acquire a participation in the Company and such participation is substantially in the interest of the Company, or if a third party offers necessary additional financial services which cannot be obtained otherwise or in the case of a necessary participation of further persons for marketing and market reasons. Also special transaction structures in the interest of the Company and of the shareholders may require the issuance of convertible bonds with the exclusion of the shareholders' subscription rights.

In order to allow the implementation of the issuance of convertible bonds, the Management Board shall also have the possibility to offer the convertible bonds by way of an indirect exclusion of shareholders' subscription rights pursuant to section 153 para 6 Stock Corporation Act.

If the Management Board exercises its authorisation to issue convertible bonds and exclude the shareholders' subscription right, the approval of the Supervisory Board is required. Therefore the Management Board has to establish a new written report outlining the reasons for the exclusion of the subscription right and has to publish such report at the latest two weeks prior the respective resolution of the Supervisory Board. In such case, also all other provisions of the Stock Corporation Act and the capital markets law applicable to such an issue, in particular publication and notification obligations have to be observed.

### 3. Weighing of Interests

The proposed authorization to exclude the subscription rights is objectively justified by the aspired goals, namely an optimization of the capital structure and a reduction of financing costs to provide a further stabilization and improvement of the Company's competitive position in the interest of the Company and the shareholders.

Furthermore, the exclusion of subscription rights is also necessary and required because the financing and anticipated inflow of equity from the target group specific orientation of the convertible bonds replaces

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more cost-intensive capital measures, offers favourable financing terms and secures a long-term and flexible business planning and realization of planned corporate goals for the benefit of the company and therefore also all shareholders. Without the subscription right exclusion, the company will not be able to respond quickly and flexibly to favourable conditions in the market.

The Management Board of the company expects that the company's advantage from issuing convertible bonds without subscription rights will benefit all shareholders and will clearly outweigh the (potential) pro rata reduction in shareholding of the shareholders excluded from the subscription rights.

For the reasons stated above, the proposed authorisation to exclude shareholders' subscription rights, is necessary, appropriate and objectively justified and advisable in the overwhelming interest of the company.

Leoben, June 2014

The Management Board